Marketing Healthcare Centers & Hospitals
Session 9
Pricing

© Copyright 2015 Executive Education – School of Business The American University in Cairo. All Rights Reserved

The Meaning of Price

In its simplest form, price is the level of monetary reimbursement a firm demands for its goods or services.

From a marketing viewpoint, the price also represents the economic value that the buyer provides to the producer in exchange for a product or service.

© Copyright 2015 Executive Education – School of Business The American University in Cairo. All Rights Reserved

The Meaning of Price

In establishing a price, companies realize that the established price has a perceptual or positioning value for the service.

Higher prices often connote better quality.

Yet in establishing the price, a company must also consider the competitor dynamics of the marketplace.

© Copyright 2015 Executive Education – School of Business The American University in Cairo. All Rights Reserved

The Meaning of Price

Price can affect consumer demand as well as competitor response.

As a result, the pricing decision is a major aspect of marketing strategy.

© Copyright 2015 Executive Education – School of Business The American University in Cairo. All Rights Reserved

The Meaning of Price

In this discussion of price, it is important to recognize that the price of a product or service goes by many **names:**

-**Companies** charge a **price** for their products.

-**Physicians** charge **fees** for their services.

-**Universities** charge **tuition**.

© Copyright 2015 Executive Education – School of Business The American University in Cairo. All Rights Reserved

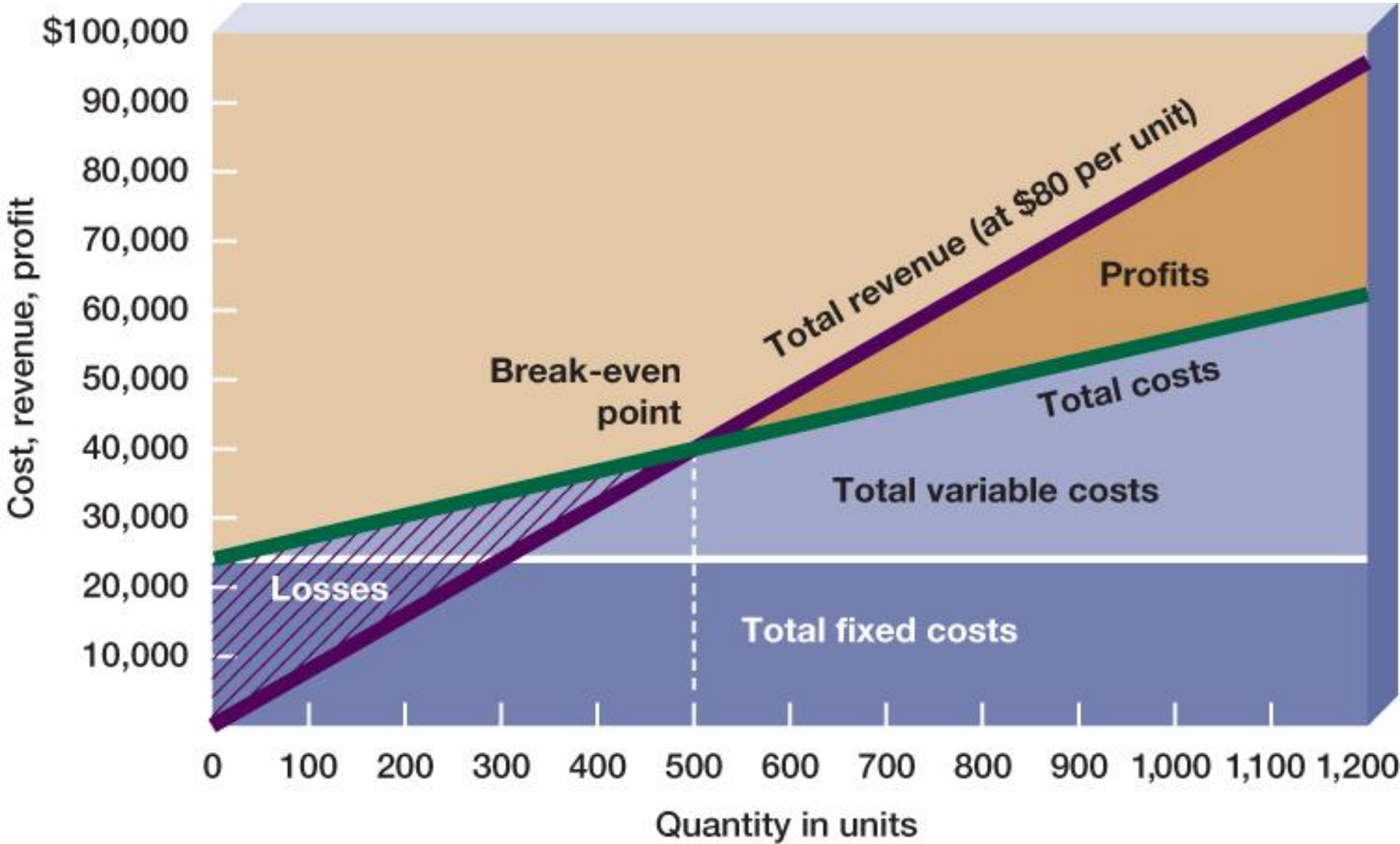
The Meaning of Price

Competitive considerations have become a key component of the pricing decision, as the number of competing managed care players in the marketplace continues to increase.

(when they may decrease?)

© Copyright 2015 Executive Education – School of Business The American University in Cairo. All Rights Reserved

Break-Even Chart



4 Cs on price setting

Cost

Company

Customer

Competitor

© Copyright 2015 Executive Education – School of Business The American University in Cairo. All Rights Reserved

Identifying Constraints of Pricing

Ideally, one suggest pricing a product high.

The higher the price, the greater the potential for profit.

Yet in any pricing decision, several constraints must be recognized to temper the final price level established:

-Demand

-Newness in the Life Cycle

© Copyright 2015 Executive Education – School of Business The American University in Cairo. All Rights Reserved

1.Demand

-A major factor in establishing price is recognizing the demand for the product or service.

-Products in great demand can command a higher price.

Example :An interesting example of high demand and thus ultimately high priced products was the introduction of the drug device combination e.g. drug coated stent.

© Copyright 2015 Executive Education – School of Business The American University in Cairo. All Rights Reserved

Demand

The introductory price for drug coated stent.

was around 5.000 $, approximately 3-4 times that of a traditional stent.

It is a major benefit to the payer & the insurance company, which as a result did not have to pay for as many bypass surgeries.

© Copyright 2015 Executive Education – School of Business The American University in Cairo. All Rights Reserved

2.Newness in the Life Cycle

Pricing considerations change over the length of time a product exists in the competitive market.

Pricing in the early stages of the life cycle depends on several variables:

© Copyright 2015 Executive Education – School of Business The American University in Cairo. All Rights Reserved

Newness in the Life Cycle

1- If, however, an organization needs to generate volume to achieve an economy of scale, or if it wants to minimize the likelihood of competitive entries, it will establish a lower price level.

© Copyright 2015 Executive Education – School of Business The American University in Cairo. All Rights Reserved

Newness in the Life Cycle

2- If the company has a limited capacity to meet demand, or if it needs to recoup investment costs prior to competitors entering the market, it may select a higher price.

© Copyright 2015 Executive Education – School of Business The American University in Cairo. All Rights Reserved

Newness in the Life Cycle

Typically , the newer a product is in the life cycle, the higher the price that can be charged.

When a company holds a patent on a product such as is common in the pharmaceutical industry, the greater the likelihood it will price the product high.

© Copyright 2015 Executive Education – School of Business The American University in Cairo. All Rights Reserved

Newness in the Life Cycle

Health care is a service driven industry, with little ability to establish patented rights to what is being provided.

This lack of sole provider ship has made higher pricing more difficult.

© Copyright 2015 Executive Education – School of Business The American University in Cairo. All Rights Reserved

Pricing Objectives

In determining its pricing strategy, an organization must first specify its **pricing objectives**.

Several objectives are relevant to pricing programs:

1-Profit

2-Sales

3-Marketing Share

4-Image

© Copyright 2015 Executive Education – School of Business The American University in Cairo. All Rights Reserved

1- Profit

A common objective for many organizations is to price in a way to maximize profits.

In following this objectives, companies will utilize a skimming price strategy, especially in the introduction stage of the product life cycle.

© Copyright 2015 Executive Education – School of Business The American University in Cairo. All Rights Reserved

Profit

The problem with a skimming strategy, however, is that while short-term profits can be maximized, the high price may encourage competitors to offer a similar service at a lower price and thereby capture market share.

© Copyright 2015 Executive Education – School of Business The American University in Cairo. All Rights Reserved

2- Sales

-A second pricing objective is to maximize sales volume.

-Companies often employ a penetration pricing strategy, which involves setting a low price relative to the competition or to substitutable services sales are maximized.

-The value of this approach is apparent when the firm must meet some economics of scale.

Example : A hospital decided to lower its mammography test. The hospital decided it could make up the price difference in higher patient volume.

© Copyright 2015 Executive Education – School of Business The American University in Cairo. All Rights Reserved

3- Market Share

Many companies set their pricing strategy around the objective of gaining market share.

In the early stages of competition for a new product or service, a market share objective is often important to achieve economies of scale to support the operation's overhead.

Unlike a skimming strategy, this approach discourage competition.

© Copyright 2015 Executive Education – School of Business The American University in Cairo. All Rights Reserved

4- Image

The image a company wants to project is often tied up with its pricing objectives.

Example :one pricing strategy is called prestige pricing, in which a high price is established relative to the competition or to the true cost of producing the service.

The goal is to project an image of **exclusivity** or **value**.

© Copyright 2015 Executive Education – School of Business The American University in Cairo. All Rights Reserved

Estimating Demand and Revenue

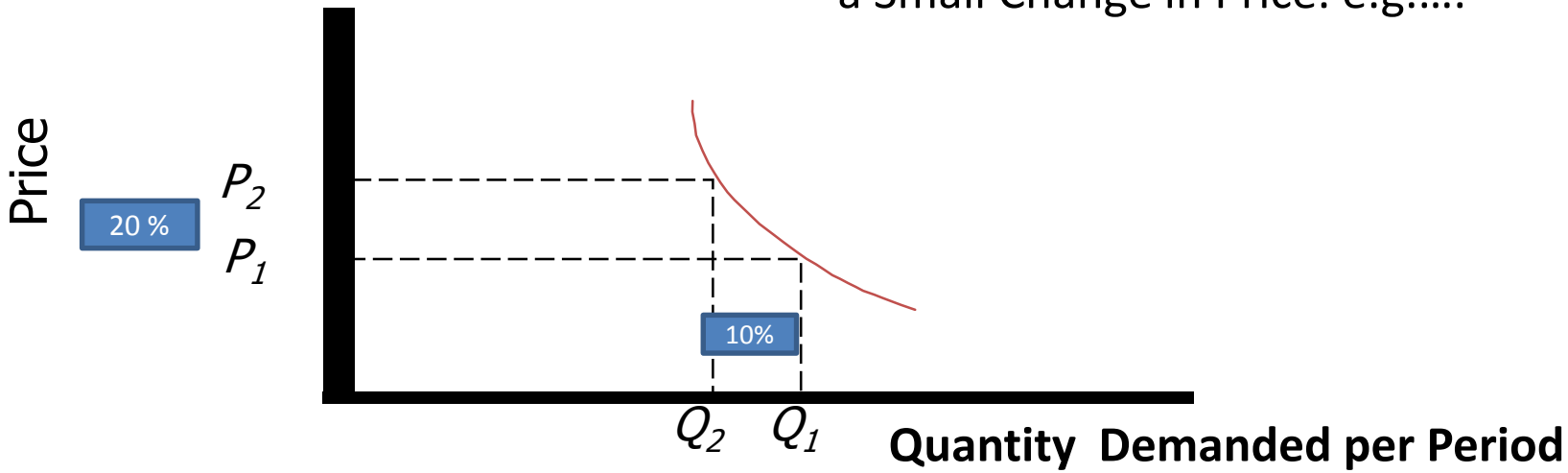
Understanding consumer's price sensitivity at various levels is where marketing research plays a critical role.

In determining consumer response to price, marketers try to assess the degree of price elasticity, or change in demand relative to a change in price which exists in the market place.

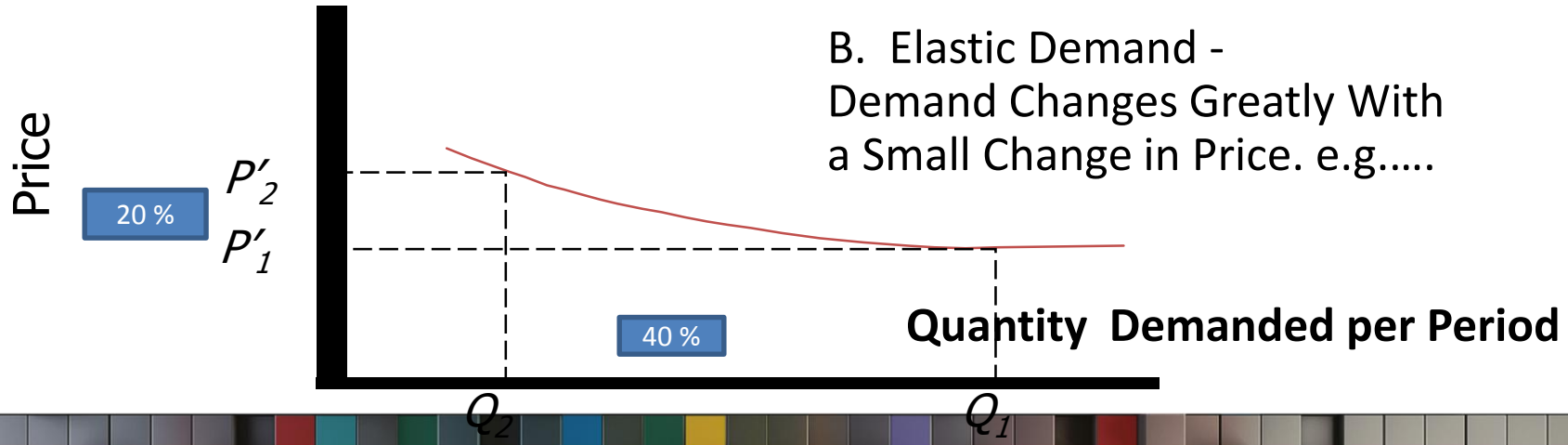
© Copyright 2015 Executive Education – School of Business The American University in Cairo. All Rights Reserved

Price Elasticity of Demand

A. Inelastic Demand - Demand Hardly Changes With a Small Change in Price. e.g.....



B. Elastic Demand - Demand Changes Greatly With a Small Change in Price. e.g.....



© Copyright 2015 Executive Education – School of Business The American University in Cairo. All Rights Reserved

Cost

In establishing the price for a product, marketers must take into consideration the nature of the organization's costs.

There are three cost concepts to consider: **fixed costs**, **variable costs**, and **total cost**.

© Copyright 2015 Executive Education – School of Business The American University in Cairo. All Rights Reserved

Cost

Fixed costs are those costs that do not change based on the volume of product or service delivered.

Example: a hospital that buys a piece of laboratory equipment would incur a fixed cost for the equipment.

Regardless of whether one or a hundred tests are performed with the equipment, the cost of the machinery is fixed

© Copyright 2015 Executive Education – School of Business The American University in Cairo. All Rights Reserved

Cost

Variable costs are those costs that vary with the amount of the service delivered.

Example : number of kits used with each test.

© Copyright 2015 Executive Education – School of Business The American University in Cairo. All Rights Reserved

Cost

Total costs represents the total expense that the firm bears in delivering and marketing its service.

Total cost represents the combination of fixed and variable costs.

With these concepts in mind, companies can consider the relationship between cost and volume in establishing prices.

© Copyright 2015 Executive Education – School of Business The American University in Cairo. All Rights Reserved

Cost Plus Pricing

One of the simplest approaches to setting price is the **cost plus method**, in which the selling price represents the total cost of the service, plus some additional amount for profit.

© Copyright 2015 Executive Education – School of Business The American University in Cairo. All Rights Reserved